
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Numbers: 334 & 1

Second Amendment to Ballpark Cooperation Agreement

OVERVIEW

On Tuesday, March 10, 2009 the City Council and the Redevelopment Agency in a joint public hearing will consider approving a second amendment to the Ballpark Cooperation Agreement and make certain findings relating to additional payments by the Agency to the City associated with the debt service on bonds used to finance PETCO Park (City Council Item #334). The payments that are proposed would cover debt service of \$11.3 million per year for five years (Fiscal Years 2009 – 2013) totaling \$56.6 million.

In addition, the Redevelopment Agency is being asked to approve an amendment to the Fiscal Year 2009 Agency Budget (Centre City Project area) to increase the provision for City payments from \$5.0 million to \$11.3 million to accommodate the payments for debt service on the Ballpark Bonds (Redevelopment Agency Item #1).

This action is separate and apart from a pending proposal for CDBG loan repayments to the City from the Redevelopment Agency that is proposed to start in Fiscal Year 2014. This item is expected to come before the Council in the near future.

FISCAL/POLICY DISCUSSION

City of San Diego Impacts

Prior to Fiscal Year 2009, the City allocated revenue from the Transient Occupancy Tax (TOT) Fund via the Special Promotional Programs budget to support PETCO Park operations and maintenance. This included the annual debt service payment of approximately \$11.3 million. To partially offset these costs, the Mayor included \$5.0 million in repayments from the Redevelopment Agency as part of his Fiscal Year 2009 Proposed Budget. It was proposed that this source of revenue would be utilized to fund PETCO park debt service payments which in turn would free up revenue that could be used for other General Fund expenses. After reviewing the Mayor's Fiscal Year 2009

Budget and meeting with Centre City Development (CCDC) staff, the IBA proposed increasing the repayment from \$5.0 million to \$7.5 million. This proposal was approved by the City Council on June 23, 2008 as part of their final approval of the Fiscal Year 2009 budget. However, the Redevelopment Agency Budget had previously been approved with the \$5.0 million payment amount.

In October 2008, the City Council was informed that due to declining revenue as a result of the economic crisis facing the country, the City's General Fund was projecting a \$43.0 million dollar deficit for Fiscal Year 2009 year end. In response, the City's Chief Operating Officer proposed increasing the Redevelopment Agency payment of the PETCO Park bonds from \$7.5 to \$11.3 million as one of the corrective actions to close the \$43.0 million deficit. The increase was approved by the City Council on December 9, 2009 as part of the corrective actions taken to close the \$43.0 million budget deficit.

It is important to note that if the City Council elected to not approve the second amendment to the Ballpark Cooperation Agreement and make the necessary findings relating to the additional payments by the Agency to the City, then the City's General Fund would be faced with an \$11.3 million deficit at year end. Due to the timing being late in the Fiscal Year, it would be extremely difficult to cover the \$11.3 million deficit without substantial service level cuts and/or a reduction to the City's reserves.

Additionally, the Mayor's current Five-Year Financial Forecast for Fiscal Years 2010-2014, which was finalized prior to the increase to \$11.3 million, assumes an annual Redevelopment Agency repayment of \$7.5 million through 2012 and increases to \$10.0 million in Fiscal Years 2013-2014. It is assumed that the Ballpark bond payments will revert back to the City starting in 2014 unless the issue is revisited, as this proposal is only for payments through Fiscal Year 2013. If the City Council elected to not approve the second amendment to the Ballpark Cooperation Agreement and make the necessary findings relating to the additional payments by the Agency to the City, then the General Fund could be faced with increased deficits through Fiscal Year 2013.

City Council and Redevelopment Agency findings required for the Agency to assume debt payment of Ballpark Bonds

The Redevelopment Agency is proposing to use Tax Increment for the Ballpark debt service payments. In order for the Redevelopment Agency to use the Tax Increment for the Ballpark Debt Service, the City Council and the Redevelopment Agency are required to make certain findings that include:

- The project (Ballpark) will benefit the redevelopment area.
- No other means of financing is reasonably available to the community.
- The expenditure will assist in the elimination of blight and is consistent with the implementation plan.

These findings are required according to Redevelopment Law, which limits an Agency's ability to utilize tax increment to pay for public improvements. Working with the Agency's Special Counsel, Murray Kane from Kane, Ballmer & Berkman, the

Redevelopment Agency has prepared a summary of facts addressing the findings required to use Tax Increment for Ballpark bond repayments. This document is included as part of staff's January 27, 2009 report to the City Council.

Based on information from CCDC staff, the financial findings are based on the Mayor's Fiscal Year 2009-2013 Five-Year Financial Forecast which anticipates significant General Fund deficits in each year. Additionally, the findings are consistent with those adopted by the City Council and the Redevelopment Agency to initially finance the Ballpark using Tax Increment. While our office has carefully reviewed the findings and have no issues, our review focused on the financial elements of the proposal leaving the merits of legal findings to the Redevelopment Agency's Special Counsel.

Impacts to Redevelopment Agency's Project Area Budget

To fund the Ballpark debt service payment for Fiscal Year 2009, the Redevelopment Agency had included \$5.0 million in the Centre City Project Area budget which was approved by the Redevelopment Agency on May 20, 2008. For the additional \$6.3 million, the Agency is proposing to utilize funds from the "Future Year Project Carry Forward" line item included in the Fiscal Year 2009 Budget. This line item currently includes \$27.76 million and funds future projects such as parks and fire stations. For Fiscal Year's 2010-2013, the Agency will include the full \$11.3 million payment in the Centre City Project Area budget. Staff has indicated that with the Agency assuming the Ballpark Debt Service payments, the completion of some projects could be delayed.

Repayment of Community Development Block Grant (CDBG) Loans from the Redevelopment Agency to the City of San Diego

As stated above, one item that will need to be addressed is the repayment of CDBG loans from the Redevelopment Agency to the City of San Diego. As of June 30, 2008, the Redevelopment Agency has a total of \$114.0 million in outstanding CDBG loans (Principal and Interest) that are owed to the City. In their December 30, 2008 Audit of the City's CDBG program, the Inspector General of the Housing and Urban Development Department (HUD) found that the City had legitimately loaned CDBG funds to the Agency project areas but failed to execute loan agreements and repayment schedules.

With the Redevelopment Agency assuming the Ballpark Debt Service payments for Fiscal Years 2009-2013, it is unclear what the impact would be to the Agency if they are required by HUD to immediately start to repay the CDBG loans.

The Redevelopment Agency is expected to bring a plan for repayment of CDBG loans to the City Council in the near future.

CONCLUSION

The IBA supports the proposal for the Redevelopment Agency to pay the annual debt service payment for the ballpark for Fiscal Years 2009-2013. The IBA proposed and the Council approved increasing this payment from \$5.0 million to \$7.5 million in the Fiscal Year 2009 budget. In addition, our office and the City Council supported the Mayor's proposal to increase the repayment further to \$11.3 million in Fiscal Year 2009 as part of the mid-year corrective actions. We also understand that this specific proposal is for a five-year period and is consistent with the findings that no other reasonable means of

financing is available to the community during this time period. We would also note that the time period for the ballpark payments coincides with a second proposal being developed by the Agency to begin repaying the CDBG loans owed to the City beginning in Fiscal Year 2014. This is expected to come before the City Council in the very near future.

[SIGNED]

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